

**Audit Committee – 12 April 2011**

**Grants Report 2009/10**

**1. Summary of report**

- 1.1 This report details the Grants Report for 2009/10 submitted by Grant Thornton, the council's external auditors. This is based on grant claims for 2009/10 which were audited April to September 2010. The report outlines findings and recommendations and the council's response to these.

**2. Recommendations**

- 2.1 Audit Committee is requested to note the recommendations issued by Grant Thornton and actions being taken to address these.



James Walsh  
Assistant Director of Finance (Chief Finance Officer)  
28 March 2011

**3. Governance**

- 3.1 Grant Thornton, as the council's external auditors are required to certify a number of grant claims submitted by the council. This certification represents a final but important part of the process to confirm the council's entitlement to funding.
- 3.2 Grant Thornton's report summarises an overall assessment of the council's management arrangements in respect of the certification process and makes recommendations for any potential improvements.

**4. Resource and legal considerations**

- 4.1 Named accountable officers, supported by Finance and other staff, should ensure full compliance with external grant certification instructions and follow the council's grants manual. The manual has been revised and strengthened. A grants workshop was also held, presented by Finance and Grant Thornton, which launched the revised manual. All grant accountable officers were required to attend.

**5. Performance and risk management issues**

- 5.1 Staff were required to attend offered training on any new requirements arising from revisions to the grants manual, the external auditors grants report and actions arising from the Grant Thornton investigation into European Funding. This is to ensure staff have the correct skill base and support to ensure the council meets its obligations and are aware of and comply fully with the grants instructions and governance arrangements.

## **6. Equality implications**

6.1 None directly associated with this report.

## **7. Consultation**

7.1 The report is prepared in consultation with finance and senior officers across the council.

## **8. Background papers**

8.1 Grant Thornton Grants Report 2009/10.  
Grants manual launched November 2010  
Grant Thornton European Funding report 2010  
Walsall ERDF Action Plan 2010

### **Author**

Vicky Buckley – Head of Finance, ☎ 01922.652349, [buckleyv@walsall.gov.uk](mailto:buckleyv@walsall.gov.uk)



## **Walsall Metropolitan Borough Council**

Certification work report 2009/10

January 2010

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# 1 Introduction and approach

## Introduction

- 1.1 Various grant-paying bodies require external certification of claims for grant or subsidy and returns of financial information. As Walsall Metropolitan Borough Council's (the Council) external auditors, Grant Thornton UK LLP undertakes certification work at the Council, acting as an agent of the Audit Commission.
- 1.2 The Audit Commission makes certification arrangements with grant-paying bodies: this includes confirming which claims and returns require certification and issuing certification instructions. These instructions are tailored to each scheme and they clearly set out the specific procedures to be applied in examining a claim or return. The Audit Commission agrees the deadline for submission of each claim by authorities and the deadline for certification by auditors.

## Our certificate

- 1.3 Following our work on each claim or return, we issue our certificate. The wording of this depends on the level of work performed, stating either the claim or return is in accordance with the underlying records, or the claim or return is fairly stated and in accordance with the relevant terms and conditions. Our certificate also states that the claim has been certified:
  - without qualification;
  - without qualification but with agreed amendments incorporated by the authority; or
  - with a qualification letter (with or without agreed amendments incorporated by the authority).
- 1.4 Where a claim is qualified because the authority has not complied with the strict requirements set out in the certification instruction, there is a risk that grant-paying bodies will retain funding claimed by the authority or claw back funding which has already been provided or has not been returned. In addition, where claims or returns require amendment or are qualified, this increases the time taken to undertake this work, which impacts on the certification fee.

## Key messages

- 1.5 A summary of all claims and returns subject to certification for 2009/10 is provided at Appendix A, together with the certification fee and outcome of our review.
- 1.6 The key messages from our review are summarised in Exhibit One overleaf, and set out in detail in the next section of the report.

### Certification arrangements:

- amounts claimed below £125,000 – no certification
- amounts claimed between £125,000 and £150,000 – agreement to underlying records
- amounts claimed over £500,000 – agreement to underlying records and assessment of control environment. Where full reliance cannot be placed: detailed testing.

**Exhibit One: Key Messages**

Aspect of certification arrangements	Action
<p>The Council has improved the timeliness of its submissions of claims and returns for certification. In 2009/10 one of the eight grants submitted by the Council was late, and only by one day, compared to three in 2008/09.</p>	<p>The Council should continue to ensure that claims and returns requiring certification are submitted on time and, ideally, achieve 100% compliance.</p>
<p>One of the eight claims submitted for certification in 2009/10 resulted in a qualified opinion, which is consistent with 2008/09, excluding ERDF returns.</p> <p>In 2008/09 the qualification was in regard to New Deal for Communities whereas in 2009/10 it applied to Housing and Council Tax Benefits Scheme.</p>	<p>The proportion of qualifications is low, however there are still steps that can be taken by the Council to further improve performance. Refer to Management Arrangements at paragraph 2.8 and Appendix B for detailed comments.</p>
<p>Grant preparer availability has been good and working papers have generally been sufficient.</p>	<p>Working papers presented for audit are generally sufficient. However, with the launch of the Council's new grants manual, compilers should ensure that, as a minimum, they comply with the working paper requirements set out in the accountable officer checklist.</p>

- 1.7 During the year, the Council took action to raise the importance of effective grants administration and improve the effectiveness of the respective roles of the finance department and service areas. This initiative was led by the Finance Department, and the participation of the Council's Chief Executive in a workshop involving all relevant officers demonstrated the importance the Council gave to this initiative.
- 1.8 We welcome the commitment to improve this area of the Council's arrangements and consider that the work should deliver real benefits to the Council in future.

## 2 Results of our certification work

### Key messages

- 2.1 For the financial year 2009/10, we have certified eight claims and returns produced by the Council, with a total claim value of £222,233,958. This represents both funding claimed by the Council and returned to grant-paying bodies, as well as other financial information.
- 2.2 The Council's performance in preparing claims and returns is summarised in the table below.

### Exhibit Two: Performance against key certification targets

Performance measure	Target	Target met?	Achievement in 2009-10		Achievement in 2008-09		DoT**
			No.	%	No.*	%	
Total number of claims			8	n/a	8 [8]	n/a	
Claims submitted by Council deadline	100%	✘	7	87.5%	5	62.5%	↑
Claims certified by auditor deadline (or within 3 months of receipt if later)	100%	✔	8	100%	8	100%	=
Claims certified without amendment or qualification	100%	✘	6	75%	4	50%	↑
Claims amended	0%	✘	2	25%	4	50%	↑
Claims qualified	0%	✘	1	12.5%	1	12.5%	=
Claims amended and qualified	0%	✘	1	12.5%	1	12.5%	=

\*Figures shown for 2008/09 relate to recurrent grants and therefore exclude ERDF claims. There were no ERDF claims certified in 2009/10.

\*\*Direction of Travel

- 2.3 This demonstrates that overall the Council's performance in preparing claims and returns has improved since 2008/09.

- 2.4 Details on the certification of all claims and returns are included at Appendix A. Where we have concluded that an item is significant, further details are included later in this section.
- 2.5 Where claims and returns have been amended or qualified and we have identified opportunities for improvement in the compilation in future years, we have made recommendations to support the Council's continuous improvement. These are included in the action plan at Appendix B.

### Certification work fees

- 2.6 Each year the Audit Commission sets a schedule of hourly rates for different levels of staff, for work relating to the certification of grant claims and returns. When billing the Council for this work, we are required to use these rates. They are shown in the table below.

#### Exhibit Three: Hourly rates for certifying claims and returns

Role	2009/10	2008/09
Engagement lead	£325	£310
Manager	£180	£170
Senior auditor	£115	£110
Other staff	£85	£80

- 2.7 Our fee for certification work at the council in 2009-10 was £68,981, compared to £119,531 for 2008/09. The movement in our fee reflects the number of grants requiring certification reducing from 14 in 2008/09 to 8 in 2009/10, following the end of the Council's ERDF programme. To provide a meaningful comparison, our fees in 2008/09 for the eight grants certified in 2009/10 were £63,654. Details of our fee by claim and return and how this compares to last year are included at Appendix A.

### Management arrangements

- 2.8 This year we completed a review of the Council's conduct and arrangements in managing and administering the European grant funded Objective 2, 'Action Plan'. The work was prompted by a £2.5m loss of grant funds, as a result of non compliance with the funding body's rules, which we initially reported on in our Annual Audit Letter. The Council called for a full investigation into this matter, which we undertook using statutory audit powers. Our main findings were reported to the Audit Committee of 23 March 2009.
- 2.9 Following this report the Council compiled an action plan aimed at tightening processes and procedures and to introduce more consistency into the approach to grant management. The key elements within this were:
- the revision of the grants manual (including a widening of its scope);
  - introduction of a claims and returns co-ordination role within central finance; and
  - emphasis on ongoing training and development arrangements.
- 2.10 To coincide with the launch of the new grants manual in November 2010, a joint training session was provided by Grant Thornton UK LLP and officers of the Council, attendance at which was mandatory for all relevant Council staff.



- 2.11 The initiatives being implemented by the Council, as referred to in paragraph 2.9 are in their infancy as at the time of writing and it is not possible therefore to conclude on their effectiveness. We will follow up on this as part of work for 2010/11 and we will provide an update on how it has affected those claims subject to certification in our 2010/11 report.

### **Significant issues**

- 2.12 Amendments and qualifications, where applicable, are set out at Appendix A on a claim by claim basis. This section provides further detail of any significant issues relating to those amendments and qualifications as well as any other issues identified during the course of our 2009/10 certification work that we consider appropriate to bring to your attention.

### **Housing and Council Tax Benefits Scheme**

- 2.13 Exhibit One states that the Housing and Council Tax Benefits Scheme was qualified in 2009/10. The two findings which led to the qualification were as follows:
- Initial testing identified two cases where the individuals' original claim forms could not be traced by the Council, as they had been destroyed in a fire. No further instances were identified in the additional testing which followed; and
  - Initial testing identified one instance where the Council had misclassified expenditure. Testing of a supplementary random sample did not identify any further instances of a misclassification but an additional error was identified in another case, whereby single person discount had been awarded incorrectly.
- 2.14 In accordance with Audit Commission guidance both of these findings led to an extrapolation of the errors across the population of the claim. The most significant of these was the inability to locate the original claim forms, which resulted in an extrapolated cell adjustment of £2.17m. The other finding led to an extrapolated adjustment of £280.
- 2.15 Management representations were attached to our qualification letter to the Department of Work and Pensions (DWP) requesting that the adjustment of £2.17 million is not applied to the claim, as the original claim forms were long standing "passported" claimants and evidence was available on the DWP's own Customer Information Service (CIS) system, which supports the fact that a claim for Housing Benefit has been made in both cases.
- 2.16 Further to the submission of our qualification letter, we have, at DWP's request, confirmed to DWP that there is evidence supporting this comment in the management representations.
- 2.17 We are pleased to report that DWP have subsequently confirmed that the £2.17 million adjustment will not be applied.

### **Acknowledgements**

- 2.18 We would like to take this opportunity to thank the council's officers for their assistance and co-operation during the course of the certification process.

**Grant Thornton UK LLP**

**January 2011**

## A Details of claims and returns certified for 2009/10

Ref	Claim	Claim value 2009/10	Amended? Y/N	Amendment value (£)	Qualified Y/N	Fee 2009/10 (£)	Fee 2008/09 (£)	Fee variance (£)
LA01	National Non Domestic Rates Return	62,790,657	Y	(693)	N	5,741	5,528	213
RG32	Single Programme	111,248.93	N	n/a	N	760	1,105	-345
BEN01	Housing and Council Tax Benefits Scheme	121,390,392	Y	180	Y	41,399	32,188	9,211 <sup>1</sup>
EYC02	General Sure Start Grant	10,572,357	N	n/a	N	5,070	7,990	-2,920
HOU21	Disabled Facilities Grant	1,215,000	N	n/a	N	1,345	2,045	-700
PEN05	Teachers' Pensions Return	18,636,072	N	n/a	N	5,298	6,483	-1,185
TRA11	Local Transport Plan: Major Projects	1,883,239	N <sup>2</sup>	Nil	N	3,577	2,545	1,032 <sup>2</sup>
RG03	New Deal for Communities	5,624,115	N <sup>3</sup>	Nil	N	5,791	5,770	21

<sup>1</sup> Additional work was performed during 2009/10 compared to 2008/09 due to errors found in the initial testing, as described earlier in this report. By its nature a qualification requires further work to be performed, which has led to an increase in the certification fee for 2009/10.

<sup>2</sup> Several adjustments were made to the Local Transport Plan: Major Projects claim which increased the total scheme expenditure to date by £3.91m. However these adjustments did not impact on the figure required to be used for certificate work data return purposes (which in this instance was the value of the grant allocation). This is the figure on which the value of the amendment is calculated and reported to the Audit Commission. As there was no impact on this figure the amendment value is calculated as £nil. Additional work was required in order to determine the level of adjustments required, which has led to an increase in the certification fee for 2009/10.

<sup>3</sup> Several adjustments were made to the New Deal for Communities claim, most notably a correction to arithmetic which led to a restatement from £416,115 underspend to an equivalent overspend position. However, these adjustments did not impact on the figure required to be used for certification work data return purposes (which in this instance was the total of all payments made from NDC grant in funding). This is the figure on which the value of the amendment is calculated and reported to the Audit Commission. As there was no impact on this figure the amendment value is calculated as £nil.

Ref	Claim	Claim value 2009/10	Amended? Y/N	Amendment value (£)	Qualified Y/N	Fee 2009/10 (£)	Fee 2008/09 (£)	Fee variance (£)
	<b>Sub-total</b>					68,981	63,654	5,327
	<b>Grants certified in 2008/09 not requiring certification in 2009/10:</b>							
EUR01	Total EUR01 claims	n/a	n/a	n/a	n/a	n/a	6,453	(6,453)
EUR02	Total EUR02 claims						49,424	(49,424)
	<b>Total</b>					<b>68,981</b>	<b>119,531</b>	<b>-50,550</b>

## B Action plan

Claim or return	Recommendation	Priority (H/M/L)	Management response & implementation details
Overall management arrangements	<p>During November 2010 a revised grants manual was authorised and issued by the Council. The launch of this coincided with a training session provided jointly by council officers and Grant Thornton.</p> <p><b>Recommendation</b>                      We recommend that the Council follows up on the initial training session provided to all officers, to ensure certification arrangements are understood throughout the organisation. This could include sample technical reviews of grant files prior to submission to us for certification, or during the year. In addition we understand that the Council plans to run smaller training sessions, led by central finance along with the author of the revised grants manual, with relevant teams, on a directorate by directorate basis. We recommend that this is undertaken as quickly as possible to reinforce the wider training event messages and to allow claim-specific queries to be raised and resolved.</p>	M	<p><b>Management response:</b> Two additional large training sessions were ran in the council chambers in January, a further large session is planned for March. Following this, there will be a review to determine who else requires training and how to deliver it. There also have been two sessions for smaller teams, which included some representatives from 3<sup>rd</sup> party providers.</p> <p>It is intended that all large claims will be reviewed (not just those requiring Audit Commission certification), together with a sample of smaller claims.</p> <p><b>Responsible officer:</b> Grants Co-ordinator</p> <p><b>Implementation date:</b> The grant co-ordinator post holder will be in post from 1 April 2011. Consideration of Technical review follow up by end May</p>

Claim or return	Recommendation	Priority (H/M/L)	Management response & implementation details
BEN01: Housing and Council Tax Benefits Scheme	<p>The significant aspect of the qualification arising on this claim was outside of the Council’s control: being the fire that occurred in the off-site location leading to the destruction of the original claim forms sampled for testing. Therefore, despite the potential monetary impact of the qualification, there is no recommendation to be raised in this regard. The other finding was a misclassification of expenditure due to the death of a claimant, which we understand arises automatically due to the way in which the Council Tax and Housing Benefit systems interact with one another. If this matter is not addressed it may result in future qualifications to the claim as it will be a recurring issue.</p> <p><b>Recommendation</b>                      We recommend that the link between the two systems is updated to ensure that this type of misclassification no longer automatically occurs.</p>	M	<p><b>Management response:</b> DWP have accepted the authority’s response and have settled the claim (evidence that a claim had been made was held by DWP).</p> <p><b>Management response:</b> For 2010/11 – the incidence of this type is rare and the financial impact is nil. There are no reports available to officers to identify such cases. Costs of trawling the system to identify such minimal errors with no financial impact is not justified.</p> <p>In 2011/12 this issue will no longer arise because the cell will be combined with the CTB technical overpayment cell.</p> <p><b>Responsible officer:</b> Lynn Hall.</p> <p><b>Implementation date:</b> Complete.</p>
EYC02: General Sure Start Grant	<p>The Service Level Agreement (SLA) with regard to Sure Start was not signed until 10 February 2010 by Homestart, despite the contract extension being agreed in July 2009. Likewise, the SLA between Serco and Walsall Libraries for the year commencing 1 April 2009, was not signed until December 2009.</p> <p><b>Recommendation</b>                      It is recommended that all SLAs are signed prior to the start of the service being supplied.</p>	M	<p><b>Management response:</b> Officers will be reminded that SLAs should be signed prior to the start of the service being supplied.</p> <p><b>Responsible officer:</b> Grants Co-ordinator</p> <p><b>Implementation date:</b> End April 2011</p>

Claim or return	Recommendation	Priority (H/M/L)	Management response & implementation details
TRA11: Local Transport Plan: Major Projects	<p>The claim form required amendments of £3.91m for the error in column 1 to correct figures which showed total expenditure to date funded by the Department for Transport grant rather than total expenditure to date from all funding sources on the scheme. This did not impact on the overall value of the claim.</p> <p>We were informed that this was due to a change in responsibility for compilation of the claim during the year.</p> <p><b>Recommendation</b></p> <p>We recommend that, where responsibility for claim compilation is transferred, there are appropriate handover arrangements in place to ensure that the new compiler is aware of all relevant guidance and can complete the grant claim correctly.</p> <p>We also recommend that the council considers whether the checks included in the revised grants manual are sufficient to identify such errors in the future.</p>	M	<p><b>Management response:</b> The revised grants manual sets out responsibilities as to completion of grant claims. Grant compilers should ensure appropriate handover arrangements are in place. Where a change in officer is known, Finance staff will remind officers of the need for this.</p> <p><b>Responsible officer:</b> Head of Finance</p> <p><b>Implementation date:</b> On-going</p>
RG03: New Deal for Communities	<p>During the certification process, contact was required to be made by the Council to the third parties, in order to obtain additional information in support of the expenditure incurred and reported.</p> <p><b>Recommendation</b></p> <p>We recommend that the Council, as accountable body, ensures that appropriate evidence is obtained and maintained for third party funding as at the time of making the payment, rather than retrospectively, as failure to obtain this on a timely basis significantly increases the risk of clawback.</p>	H	<p><b>Management response:</b> This is a requirement emphasised in the revised Grants Manual and workshop.</p> <p>Officers have been reminded not to pay a claim unless sufficient evidence is included with that claim.</p> <p><b>Responsible officer:</b> Head of Finance</p> <p><b>Implementation date:</b> Implemented. Arrangements for checking the above is in place will be reviewed by the Grants Co-ordinator</p>

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